



Ortel Communications Ltd.

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Bringing Convergence to India

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Dear Sir/Madam,

Sub: - Conference Call Transcript of Q2 FY 17.

We are enclosing herewith Conference Call Transcript of Q2 FY 17 pursuant to Regulation 30(6) of SEBI Listing Obligations and Disclosure Requirements) Regulations, 2015.

This is for your information and record.

Thanking You,
For Ortel Communications Limited

Lalit Kumar Mohanty
(Company Secretary and Compliance Officer)

Encl: As above.



Ortel Communications Limited

Q2 & H1 FY2017 Earnings Conference Call

October 26, 2016 at 05.00pm IST

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Ortel Communications Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, Mr. Solanki.

Nishid Solanki

Thank you. Good Evening, everyone, and Welcome to Ortel Communications Q2 & H1 FY2017 Earnings Conference Call.

We have with us Mr. Bibhu Prasad Rath – President & CEO, Mr. Chitta Ranjan Nayak – Chief Operations Officer, Mr. Jiji John – Vice President, Broadband Business and Mr. Manoj Kumar Patra – Chief Financial Officer of the company. We will begin the call with opening remarks from the management following which we will have an interactive question-and-answer session.

Before we begin, I would like to highlight that certain statements made on the conference call today maybe forward-looking in nature and a disclaimer to this effect has been included in the Earnings Presentation shared with you earlier.

I would now invite Mr. Bibhu Prasad Rath to make his initial remarks. Thank you and over to you, sir!

Bibhu Prasad Rath

Good afternoon, everyone. We appreciate the time you have taken to join us today. I will take you through the financial results and some of the key developments that took place during the quarter.

We reported steady performance during the quarter led by healthy growth in Cable TV and Broadband business, both of which reported growth rate of 36% and 22% on a year-on-year basis. Our core subscription income in both these segments improved by 44% and 28% on a year-on-year basis respectively and on Q-o-Q basis, core subscription revenues increased by around 7%. We crossed a milestone of 8 lakh subscribers as on 30th September, 2016. Our total subscriber base now stands at 804,889 and we have more than 61,000 subscribers in the pipeline which would be integrated to the Company's network in the forthcoming months. Our subscriber additions during the quarter grew at a moderate pace of around 35,000 during this quarter. This happened due to delay in closure of our fund raise plan in terms of tying up the balance debt required to reach 1 million subscribers. We expect this to be resolved soon which will lead to higher subscriber additions going forward.

I would like to highlight that over 80% of the new LCO signings have been concluded in the non-Orissa markets especially Andhra Pradesh, Telangana and Chhattisgarh. More importantly, I am pleased to announce that as guided in the past, we turned EBITDA positive in the non-Orissa markets in Q2 and I believe this is a huge positive development for us. Having demonstrated the scalability of our growth model in markets outside Orissa, we are now all set to improve the profitability in the segment.

Let me now share some key developments that took place.

As you are aware, we sealed RIO-based deal, Reference Interconnection Offer based deal with Star India and IndiaCast, two of the major broadcasters in the previous quarter. With respect to this, I am happy to underline that we have now implemented this deal on A-La-Carte basis with these two broadcasters. This has already resulted in significant decline in the programming cost which declined by 13% quarter-on-quarter. Our Pay Channel cost per Cable TV subscriber has fallen by 19% Q-on-Q from Rs. 50 to Rs. 41. In addition, we intend to pursue the A-La-Carte model going forward which will not only rationalize the Pay Channel cost but also bring in transparency into our commercial arrangements thereby leaving the right to choice in the hands of the consumers in a digitized era.

In addition to the Pay Channel costs, we also focused on rationalization of all other costs and efficiency during the last quarter and we were able to optimize our overall cost which is reflected in 5% decline in total expenditure. This was possible due to our focus on efficiency and cost rationalization. We believe in a fully digitized environment where we would be able to further optimize our overall cost which would thereby lead to a much better financial performance.

Coming to our financial performance during the quarter, we reported a healthy growth of 17% in total revenue to Rs. 537 million, driven by our core subscription revenues in Cable TV and Broadband segments which reported growth of 44% and 28% respectively as compared to the same quarter last year. On a Q-on-Q basis, revenues improved by 2.5% and our core subscription revenues increased by 7% in both Cable TV and Broadband services. EBITDA stood at Rs. 171 million in Q2 FY2017 as compared to Rs. 173 million in Q2 FY2016 and EBITDA margins came in at 31.5% as compared to 26.3% last quarter. On a Q-on-Q basis, EBITDA growth was strong at 23%. Profit after tax stood at Rs. 25 million as against Rs. 28 million in a corresponding quarter of last year. However, on a Q-on-Q basis PAT is almost 3 times of the previous quarter.

For H1 FY2017, total revenues stood at Rs. 1,061 million higher by 23% year-on-year, while EBITDA came in at Rs. 310 million with EBITDA margin of 28.9%. Profit after tax was at Rs. 34 million compared to Rs. 53 million in the same period last year.

Moving on to our regional performance. Revenues from Orissa stood at Rs. 416 million in Q2 FY2017 and EBITDA came in at Rs. 174 million. EBITDA margins were robust at 41.8% in Orissa. Total subscribers in Orissa were at 543,132 and more than 11,000 subscribers are in the pipeline and will be integrated into Ortel's network soon.

Total revenues from markets outside Orissa that is Chhattisgarh, Madhya Pradesh, Andhra Pradesh, Telangana and West Bengal came in at Rs. 117 million against Rs. 33 million in Q2 of last year, higher by 253% year-on-year. Even on Q-on-Q basis, we have performed very well in these markets. As highlighted earlier, non-Orissa markets have turned EBITDA positive in this quarter and this is expected to boost our overall EBITDA margins going forward. Total subscribers in market

outside Orissa stood at 261,757 and a total 49,916 subscribers are in the pipeline. The subscriber base outside Orissa is now at an all time high of 33% of the total subscribers which we expect to exceed 40% by the year end.

Our growth of Broadband services has slightly slowed down in Q2 primarily due to delay in launch of services in many of the markets we acquired outside Orissa during last one year or so. We intend to roll out services in some of these markets now and expect the Broadband growth to bounce back going forward.

ARPU's in both Cable TV and Broadband have firmed up in last quarter and as I have mentioned in the past, we expect marginal growth going forward whereas most of our revenues and profitability would come from higher customer base, improvement in efficiency and cost rationalizations.

I would now like to briefly share my views on the draft regulation papers issued by TRAI (The Telecom Regulatory Authority of India) in the recent past. We believe, these set of regulations have a far-reaching impact on industry as a whole. The proposed regulations are in the right direction and address the key concerns around transparency, non-discrimination and bundling issues. While one issue or two issues may have some short term impact on us which we will take up with the regulator shortly. On an overall basis, we believe these regulations will have significant long-term positive impact on Ortel Communications.

To conclude, I would like to add, that we remain on track to demonstrate strong financial and operational performance going forward. We strongly believe our strategy of focusing on the B2C model which is based on a high valuable last mile network will enable to generate significant value for all stakeholders in the coming years.

Thank you for your time and we will now be glad to take your suggestions and answer any questions that you may have. Thank you.

Moderator Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla I have a few questions. Can you please share the data on the break-up of analog and digital customer base in Cable TV?

Bibhu Prasad Rath I have not shared that data, but approximately 50% of the Cable TV subscribers are now on digital. So, this break-up which I was giving in the earlier presentations, I have removed it because in any case we are aggressively pursuing the digitization, as you must have seen every quarter the ratio is going up and it is a matter of time that everything becomes digital. But currently it is 50%.

Sanjay Chawla Okay. And also, couple of other questions on revenues. Your carriage revenues are down quarter-on-quarter as well as year-on-year so, what is the reason for that and what is the outlook on that? And secondly, we have not seen any increase in the leasing revenue this quarter again. So, what is the outlook on that?

Bibhu Prasad Rath Okay. On the carriage revenue, this quarter there is I think around Rs. 10 million down from the previous quarter so, this has happened in relation to one specific channel which was paying us certain revenue and they have decided to not get carried. And I do not know really their plans.

Sanjay Chawla Is it pursuant to any moving towards net content cost strategy, the A-La-Carte issue out there?

Bibhu Prasad Rath No, it was one of the regional channels which decided, I do not want to make comments, why they decided this. But this is definitely not the impact of any net content deal; but one of the channels opting out of the carriage.

Sanjay Chawla But typically the MSO, especially like who has control on the last mile, you have a lot more bargaining power in terms of your scale and your reach and control. So, can it come back in future? My question is, is this a permanent loss for you?

Bibhu Prasad Rath As of now, yes, bargaining power is yes, but I do not want to sound negative but you know there are too many channels in India and not necessarily everyone is only on a path. So, as of now, it looks like it is a permanent loss, but there is always a possibility that, it depends on their plans.

Sanjay Chawla From a longer-term point of view, do we expect these kinds of things to happen and eventually, so, what should be the outlook on carriage revenue?

Bibhu Prasad Rath On a longer-term basis, there are two scenarios, one is in respect of the new regulation which may come in from next year and one may be without considering the impact of the regulation. See, this shake out in the broadcaster's market, if you take out the national big broadcaster, the shake out is happening. So, we may lose one or two occasionally this is not the first time it has happened, it has happened in the past also, we may lose one, somebody new may get in. So, fundamentally as of now there is nothing to worry about the long-term impact, but this keeps happening.

So, this quarter we got a hit and this particular channel, I think it is a permanent but there is a possibility it may come back but I think somebody else also may come up.

Sanjay Chawla So, you think this is a result of the shake out which is happening in the broadcasting segment?

Bibhu Prasad Rath Kind of, yes.

Sanjay Chawla Okay. Around the leasing revenues, we have not seen any uptick this quarter as well. So, how should we look at that going forward?

Bibhu Prasad Rath Yes, on the leasing revenue, we have in the pipeline, revenue of around Rs. 3 crore to Rs. 4 crore over and above what is already being reported but that execution has not yet happened. So, we may see part of it in Q3; but may be mostly in Q4.

Sanjay Chawla Rs. 3 crore to Rs. 4 crore you said.

Bibhu Prasad Rath Yes. Over and above the current rate.

Sanjay Chawla Okay. And your receivables days have gone up further so, how do you look at this thing in the sense what are the reasons for that? And does it pose any risk of increase in bad debts and write-offs?

Bibhu Prasad Rath Yes, so receivable days has gone up primarily for two reasons. One reason is as you know during the year, start from the month of April the receivables on account of carriage fees typically keeps going up and it gets settle in the month of March normally, that is the practice particularly with the national broadcasters. So, that is one of the reasons. But the other reason which is I think more important for all of us to understand and you to appreciate also that, when we acquire the Cable TV subscribers in a market, we take typically around two quarters to streamline the ground rules where my network is complete, my man power is in place, my systems, procedures, collection mechanism, everything run smoothly, it takes around six months' time. So, part of the receivables which has gone up is on account of the acquisitions which we have done in Q4 and Q1 and not Q2, the Q2 will come later

and on account of that subscriber base it will not go up further. Because you know something which we have acquired in Q4 it is now almost normal, something which we acquired in Q1 will get normal in next quarter but as we acquire more in the coming quarters so, on that account there may be some increase but on the current subscriber base this will not increase so, this is a six months kind of a backlog that is why if you have seen in last six quarters the receivable levels have gone up and I expect it to be fully normalize sometime in mid of next year.

Sanjay Chawla But on a sequential basis, is this the peak, in terms of receivable days or you think it can go up further as you continue your acquisitions?

Bibhu Prasad Rath I think on a sequential basis in terms of the days this is the peak, but in terms of amount it may go up a little bit for next two quarters as we acquire more.

Sanjay Chawla Okay. And what was the gross addition figure in Cable this quarter? And what percentage would be inorganic?

Bibhu Prasad Rath I do not have the exact numbers right now but if you see the presentation, the organic is around 13%.

Sanjay Chawla Sorry, this is organic churn?

Bibhu Prasad Rath What I have done actually on the churn reporting, I have just changed the format this time. I was making a point in last many calls that most of these churns are rotational churn in nature. Some of the churns are genuine, where the customers decide to move out to another service provider. But most of the churns was actually rotational in nature and it was on account of two reasons, one is a customer shifting out of the premises and a new customer coming in so, old customer was coming as a churn and another type of churn is within the same neighborhood, with the same home past, I lose one customer from one premises but I make up by adding another customer in another premises taking away from competitor or a new customer kind of that. So, what I have reported here, the churn is 7.6% but the organic growth is 13.2%. So, what it essentially means be the ultimate impact of the churn and this is one of the apprehensions communicated to me by many investors and analysts in the past that are you losing customers and making it up by acquiring in new markets by incurring additional acquisition cost and CAPEX. So, what I wanted to communicate here is that is not happening. So, for example, in this quarter, I lost 7.6%, I gained 13.2% through organic which does not involve incremental CAPEX. So, it does not involve acquisitions. So, my net gain in the existing homes passed where the capital has been led is 5.7%. So, to that extent this explains the churn bit. But to answer to your question, how much is organic and how much is inorganic, what this indicates I can give you exact numbers offline. What it indicates is 13% is organic and 87% is inorganic, 13.2%. So 13% is organic, whatever is my gross addition, 13% is organic and 87% is inorganic.

Sanjay Chawla 13% is the share of organic in your gross additions, right?

Bibhu Prasad Rath Yes.

Sanjay Chawla So, whatever is my net addition, you add 7.6% on that, that is the churn so, that becomes gross addition and out of the gross addition, 13% is organic and 87% is inorganic. But I can share the exact numbers offline.

Sanjay Chawla Sure, just last two questions for me. Your RGUs are down in Orissa and secondly, you have achieved EBITDA breakeven in non-Orissa so, is this sustainable?

Bibhu Prasad Rath Which one - Orissa?

Sanjay Chawla

The RGUs are down in Orissa so, what is the reason for that?

Bibhu Prasad Rath

No, actually it is down marginally to 3,000, from 546,734 it is 543,132, I do not think anything should be read into that. But, as I have been always saying that the incremental growth is outside Orissa and this was also one of the requirements of the investors and analyst to see that whether we are able to grow outside Orissa or not so, what I have demonstrated you know six quarters ago, outside Orissa was 10% today it is 33%. And the way it is growing it could easily go to 35%, 38%, 40%, may be beyond 40% by year end. So, I would say that Orissa not much growth is coming but there could be some growth in some quarter, because we remain focused on the major urban markets in Orissa, we do not want to obviously expand into rural market so, Orissa whatever little comes, it will come from the organic route within the existing markets whereas outside the Orissa we will always have the higher growth. And coming back to the EBITDA breakeven in outside Orissa market, this I consider as a very-very major turning point, there are two challenges, the one challenge which was thrown at us six quarters ago that can you actually grow outside Orissa or not. The issue being in execution of last mile is complex on ground and that is known to everyone. So, this is something we have demonstrated in last six quarters and more so in last four quarters - five quarters that we are able to rapidly scale up and we have demonstrated that in a full scale in three states of Andhra Pradesh, Telengana and Chhattisgarh. So, then while we are doing all this if you see the year ago numbers, I do not remember the numbers. But EBITDA margins there was very high negative. So, at times it was 40%-50%-30% type and it was steadily coming down so, now we have demonstrated the scalability and now it is positive so, if it has come down from minus 40% to plus 7% yes, it is definitely sustainable and it will definitely grow. If Orissa is 41% EBITDA, there is no reason why Telengana and Andhra Pradesh and Chhattisgarh will not be 40%. But will it grow arithmetically that from 7% to 15% to 20% may or may not depending on because I am still growing. If I have stopped the growth and consolidate the existing acquisition then it will steadily grow but if I do acquisition so, it may vary a little bit plus minus here but clearly this is a major significant turning point where we are not incurring losses and I do not see any reason why we should incur losses.

Sanjay Chawla

But if you have to grow fast enough, could that growth slip back into negative EBITDA temporarily? May be could it happen or you will manage a pace of growth that you continue?

Bibhu Prasad Rath

I would try to manage the growth in a manner that it does not slip to negative. But let us assume that your assumption is correct that I grow faster and it may slip. But we have already grown by around 200,000 in outside Orissa market. So, my asking rates for next two quarters - three quarters is around that much. So, I do not think even if it slips, even if it slips 6.9% may become 2% sometime in next quarter, if I do very aggressive growth. But I do not think it will slip. And I can guarantee that it will not go to those atrocious levels of EBITDA negative which is 40% - 50% last year.

See, I just want to Sanjay clarify one point here, the EBITDA negative per say comes from a new Greenfield organic project and even when outside the Orissa was reporting significant EBITDA negative, that was not so much on account of acquisitions but mostly from the historical organic which we have done. Now having turned the corner on those unless I go and start a big market in organic suppose for example theoretically, if I decide tomorrow that I will get into Hyderabad which is a part of Telengana and do rapid organic growth and then obviously, it will go up. But I do not have those intensions now. We are staying away from Greenfield organic as of now. And I do not see any reason why it should become negative, but it may remain at this level for another quarter and then may be improve and things like that.

Moderator Thank you. We have the next question from the line of Mitul Patel from Laburnum Capital. Please go ahead.

Mitul Patel My questions are kind of broad in nature. But starting with the first one, just generally how do you benefit from digitization given that you are the MSO and the last mile LCO. And considering there are not too many Tier-I cities in the states that you operate, what is the potential to raise prices there in terms of either ARPUs or in other ways on the Cable front?

Bibhu Prasad Rath Yes, on the Cable front, on the digitization you are right that we are the MSO and maybe we did not say so, but what you meant and we fully agree also that we are the LCOs. Yes, so, in fact on a lighter vein, I keep telling in various forums that we are the kind of largest LCOs in the countries. Because we strongly believe the value lies at the LCO end not at the MSO end. Even though as per definition we are an MSO, okay. Having said that, if an MSO is saying that I will benefit out of digitization how would they benefit? They would benefit probably at the cost of the LCOs that is not going to happen, somebody benefits out at the cost of somebody else that is generally not going to happen in the industry anywhere soon. And we have seen past five years experience. The benefit has to come from the fundamentals not that okay, now it is digital and I can press the lever and make somebody pay. So, the benefits as I see from digitization are as follows. One is your capacity goes up, you are giving 80 channels on analog, you give 250 channels on digital and there is a demand for every channel even though there is a crowding of channels in the country, there is a demand for every channel. So consumers will be more happy that is one, when the consumers are more happy then will pay a little bit more. Even at today's context when we are doing aggressive digitization my ARPU differential between analog to digital is around Rs. 25. The Rs. 25 on a larger customer base is a lot of money. So, that is one. The number two, you become more competitive when it comes to competing with the DTH players because they are digital and they are giving more channels and they are giving different value added services. So there is always a possibility that when you compare the analog with the DTH, analog is inferior so, once you are digital so, your inferiority goes away you are at par or better with DTH. So, you have a competitive advantage in the market. Then, there is a third issue where it helps in, when Sanjay was asking me earlier question on the receivables going up and things like that. Now, receivables and the bad debts if you put together it comes under tremendous control when it is digitized because what happens in analog, there is certain amount of leakage which happens both in terms of signal leakage and also when somebody does not pay up you need to send a truck roll to disconnect which is a lot of challenge for the management to execute thoroughly, flawlessly on the ground whereas, in a digital era we very strictly implement that on a particular day if the money has not come without causing damage to the network, without causing losses on the ground, without incurring on manpower, vehicle, etc., you can actually stop the services and make efforts to collect money. And we have seen this empirically on our network, there are quite a few networks where we do not have analog, it is fully digitized. And in each of those markets, the receivables are absolutely under much more control than the analog markets. So, this is one tangible benefit. So, these are the three tangible benefits, I see.

There is a bigger issue here, the bigger issue is that in digital you give choice to the consumers. You do not decide. I as a service provider do not decide what the customers want. In analog, we take decisions, what we will give it to consumers. In digital, consumer will decide. And when consumers decides, it may or may not benefit you in terms of costing, etc., but I believe ultimately it will benefit because if a consumer wants something you will take it and you will pay for it.

Mitul Patel Yes, okay, that makes sense. What is the overlap between your cable and broadband customers like how many of them have both the services of Ortel?

Bibhu Prasad Rath Total is 10%, 10% is Broadband and 90% is Cable TV as of now. I do not remember the exact overlap, but my guess will be it will be around half of that will be around overlap. But I can give that exact information offline.

Mitul Patel So, half of your digital customers?

Bibhu Prasad Rath No, otherwise. Half of the Broadband customers would probably have the digital services. And philosophically, it does not matter to us because we are a pipe, whether the customer is watching TV or is browsing something else, it is okay. I often make this point that, if a customer has not taken my digital and he has opted for somebody else say DTH platform and he is using my Broadband and even watching TV of the DTH guys' OTT through my Broadband it solves my purpose. My purpose is to take the pipe and he should watch whatever he wants. So, it is obviously, it improves efficiency if the customer is enjoying both.

Mitul Patel Okay. So, that brings to my second question. What technology are you using in Broadband? And what speed do you give considering your competitors in the same region struggle to make say even 20%-25% ROIC with DOCSIS 3.0 at Rs. 800 ARPU. How come Ortel makes decent return on capital at Rs. 400?

Bibhu Prasad Rath Okay. So, these are two different questions, let me address the first question which is about the technology and the speed. Now, we are operating on a parallel mode on DOCSIS 2.0 and DOCSIS 3.0. Now, most of my customers are still on DOCSIS 2.0 but DOCSIS 3.0 I think we started deploying around two quarters ago and we are expanding the area of DOCSIS 3.0. Now, technologically the difference between the two is on DOCSIS 2.0, you can give up to 10 mbps speed at the customer premises, even though rated capacity is 42 mbps. What we have seen on ground practically that on DOCSIS 2.0 you can deliver 10 mbps whereas on DOCSIS 3.0 we are able to deliver up to 100 mbps. So, our approach is that any customer who wants a 1 MB, 2 MB, 5 MB, kind of a scheme, we offer him DOCSIS 2.0. And if a customer wants 10 mbps, 20 mbps, 50 mbps, 100 mbps we offer DOCSIS 3.0. These two technologies are our major network coverage and we also use two other technologies which is Metro Ethernet and FTTH in a very-very select markets and select complexes because those are the pure Broadband network so, which we generally do not do. We have done a little bit but mostly we do HFC on DOCSIS 2.0 and DOCSIS 3.0.

Now, on speed as I mentioned, we are offering speeds up to 100 mbps. So, at a 100 mbps plan, we have 50 mbps, 20 mbps, 10 mbps, 5 mbps, going down to 2 mbps, 1 mbps and if somebody wants 512 kbps that is also fine. So, starting from 512 kbps to 100 mbps speed we offer on DOCSIS and then there are individual institutions those who want there we give the FTTH. Now, coming to the ROCE, when you said that the, I was delighted to listen that others are not making and I am making and it is nothing to do with DOCSIS 2.0 or DOCSIS 3.0, or digital or analog.

Mitul Patel No, I was trying to say that, they reported higher ARPU and they do not even make that regardless of technology.

Bibhu Prasad Rath Well, I do not want to comment on what others are reporting, I think you guys are experts in, it is a simple math. We multiply the ARPU with number of customers into 12 and it is match with the P&L revenues and that is one cross-check I would encourage you to do in my case. That you just take my number of customers multiply with ARPU and whatever number of months you consider and whether it is matching with my revenue or not that is a simple math one has to do to check whether the reporting is correct or not. But I am not getting into the reporting accuracy. But, we believe as a philosophy is that HFC as a technology is a sweet spot for multiple services. If you do HFC for pure TV or if you do HFC for pure Broadband, this is an inferior utilization of the network and it will not give you

returns, that is our belief. Worldwide anywhere you go you will find HFC is for TV plus Broadband plus voice. Now, we have regulatory issues and that is why we are keeping aside voice but it should be used for at least TV. Broadband, you cannot build a 16-lane highway and run two cars on that, that will be inefficient.

Mitul Patel

Okay, thank you. And I just have two more questions. So, what is the CAPEX plan for this year balance and the next couple of years, if you have?

Bibhu Prasad Rath

I do not yet have a CAPEX plan formally finalized and announced for the next two years. The current CAPEX plan on which I am working is for the last year and the current year. And the last year and the current year, the two years our plan was to deploy CAPEX of around Rs. 250 crore, may be a little bit more and the objective was to double the subscriber base from 0.5 million to 1 million and fully digitize. So, now out of that from 0.5 million to 1 million, I am now at 800,000, I have to do another 200,000 I am trying my best to do it this year, I am still hoping that I can do it, so that will complete and on the full digitization side we have done 50% there are legal issues there. But irrespective of what there is on the legal front, I think in next two quarters the Phase-III should be over, may be another two quarters for Phase-IV. So, the last year and current year my capital deployment plan was around Rs. 250 crore.

Mitul Patel

Got it. And also going forward considering the cash generation, etc., would you need to kind of raise either debt or equity like say a year and half down the line?

Bibhu Prasad Rath

This is a modular project. So, right now we as a management team, we are ruthlessly focused on getting to 1 million and converting it to profitability and cash flow. So, you build that network, do the acquisition, be profitable and then address the issues which I was answering in the earlier question on the receivables, etc., and the cash flow streamlines, we are currently focused on that. And obviously, as we grow beyond 1 million, obviously we will raise capital now whether we will raise equity or we will raise debt or we will raise both that is a subject on which we have not yet taken the call and that will be determined on the pace of growth we want to do beyond 1 million and I think we will take a view on all these a little later. But surely, on a conservative side surely I may rise a little bit of debt and grow beyond 1 million but I think we will come up with a formal plan by end of the year.

Mitul Patel

Okay. And last question is, if you can just comment a bit on Reliance Jio and how it is playing out in your areas of operation?

Bibhu Prasad Rath

The current launch which Reliance Jio has done is on the mobile, it is not on the wire line so, mobiles at a very-very fundamental level mobiles will always have limitations in delivery of speed. So, we do not expect on a long-term basis Reliance Jio to beat us on speed because speed is the USP of wire line network and particularly when it comes HFC and FTTH. So, speed will remain our key strength. So, consumer segments are getting divided, there will be always a set of consumers who will be happy to compromise on speed but they want mobility so, they will go to Reliance Jio, Airtel, etc. There will be a set of consumers who will be happy to compromise with mobility and stay at home and get high speed and that is where we come in. So, we do not see the current launch of Reliance Jio as any kind of threat to us. But, in future if and when Reliance Jio launches their FTTH plans, they will be of course a very serious competitor because then their capability to delivery match and exceed speed will be same as ours. So, we have to prepare ourselves for future that we have the enough market concentration and we have the customer satisfaction and fundamentally we are delivering good speed so, that we can compete but I think that is years away from now.

Moderator

Thank you. We have the next question from the line of Umang Shah as an Individual Investor. Please go ahead.

Umang Shah I have a couple of questions, I would like to understand the unit economics when you acquire an LCO. So, as per my understanding when you acquire an LCO you pay an upfront fee of approximately Rs. 1,000 and then you have a revenue sharing agreement so, you make staggered payments to the LCOs of 25% to 30% of revenues over the next four years - five years so, that results in an NPV of around Rs. 5,000 to Rs. 6,000. So, I want to understand, how do you make money on that, as the simple calculation suggest that ARPU of around Rs. 200 per month would result in an annual ARPU of Rs. 2,500 and the margin of 20% results in a PAT per subscriber of Rs. 500. So, that results in a pay back period of 12 years. So, what am I missing here, if my calculations are right?

Bibhu Prasad Rath It is a little bit of longer subject.

Umang Shah Yes, just the unit economics, I am missing out something, right?

Bibhu Prasad Rath Yes, you are clearly missing out something and if you can text me your contact details, I would like to talk to you separately and take you through the entire unit economics which I have done with many investors and analyst offline. But at a macro level, yes, you are right that we pay around Rs. 1,000 and then we share a revenue not to an extent you mentioned but a little bit lower then that and then we build the network and my total CAPEX including the one-time payment and not including the revenue share comes to around Rs. 4,000. So, I deploy around Rs. 3,000 and then I pay Rs. 1,000 so, my capital deployment per unit is Rs. 4,000. On a Rs. 4,000 deployment, I do TV ARPU, I do Broadband ARPU, I do carriage income, I do other income and on that I share certain amount of money, the number is much lower than what you mentioned and this is broadly and it comes to typically around less than four years kind of payback period. One has to do a detail math. If you can send me your contact details I will get in touch with you and may be share with you unit economics sheet and then we can talk over phone.

Umang Shah Sure, I will do that. And one more book keeping question is the segmental results huge un-allocable expenses to the tune of Rs. 16 crore. So, what would you attribute this to, the segmental results?

Bibhu Prasad Rath You are referring to the audited accounts?

Umang Shah Yes, the published results.

Bibhu Prasad Rath Can I check and get back on this?

Umang Shah Okay, no problem.

Bibhu Prasad Rath Can I have your name please again?

Umang Shah Umang Shah.

Bibhu Prasad Rath Umang Shah, I will ask my CFO to get in touch with you and give you these details.

Umang Shah Sure. And the last question is, you do not encounter competition when you are like buying out or acquiring LCOs?

Bibhu Prasad Rath That is actually in our DNA. The only reason why we have succeeded in building last mile which most other peers have not is because we face competition from the LCOs. Philosophically, we have taken a call that we will do last mile. And if you have to do last mile there are two ways – either you compete with the LCOs or you buy out the LCOs. So, we have done enough organic in the past so, we currently also continue doing a little bit where we always compete with the LCOs and position our product as a superior product in terms of price service, quality, etc. And then

wherever we get acquisition opportunities, we do acquisition. Currently what we see in the market that LCOs are willing to exit, they had enough of this in last two decades, made money and it is coming to a situation where they will have to rebuild it all over again. It is going to be a good new business in a new technology, in a new interface, new service era. So, currently most of the growth is coming inorganic but our DNA is to get down on the street, roll off the sleeves and compete with LCOs.

Umang Shah Okay. Then MSOs like Hathway or SITI Cable or any other local competitors out there do not acquire these LCOs because the payback period of four years suggest they would go for it, right?

Bibhu Prasad Rath I do not see any of them currently acquiring on last mile, some of them they do build pure Broadband, last mile networks in metros I have seen. But I do not see them acquiring and building their own last mile and why they do not do it I think that is the question you can ask in their call.

Moderator Thank you. We have the next question from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera Broadband acquisition seemed to have slowed down, is there a reason behind that for this quarter at least Q-on-Q I am comparing?

Bibhu Prasad Rath Yes, this Q2 has actually slowed down, we had a good momentum, very progressive steady growth in the previous six quarter and this particular quarter has slowed down. So, one of the reason is actually that we had actually planned and lined up Broadband roll out in the new markets which we acquired last year. So, normally like I had explained in the past the Broadband, we do not do too much of pure Broadband networks. We generally ride on the Cable network to do the Broadband. So, the Broadband runs with a lag of two quarters to three quarters on the Cable site. So, the ones which we had acquired and rolled out in say Q2, Q3, Q4 of last year, I should have rolled out Broadband and though some of those things got delayed logistically. So, that is one of the identifiable reasons why the growth was lower then the previous quarter in Q2 but we are getting that done and then I can assure you that it will bounce back.

Sachit Khera The next question is that, the programming cost and carriage both seem to have come down at least Q-o-Q? So, is there any contra entry between the two?

Bibhu Prasad Rath No, absolutely, this is something which I addressed in response to one of the earlier questions. There is absolutely no contra entry, these are two independent issues and one, the carriage came down because one of the channels actually had walked out of a carriage deal and they do not want to be carried on our network. So, that has led to a little bit reduction in the carriage fee. Now, as far as the programming cost is concerned, this has been slowly, steadily coming down over the last four quarters - five quarters, you have seen a peak of around Rs. 62 - Rs. 63 now it went to Rs. 58 - Rs. 55, Rs. 50 and now it is at Rs. 40. These are for two reasons which one of the reasons I had explained in the past that when we expand to new markets and acquire, we typically get at a little bit lower cost. Whereas in the past, because we have done a lot of organic normally organic growth comes with a very high pay channel cost and inorganic growth comes with a little bit lower pay channel cost so, that is one reason why it has been softening. But the major thing which happened in this quarter is, we have now out of four or five major broadcasters in the country which two of them, we have implemented now that since we have a lot of digital customers so, we have implemented on A-La-Carte deal instead of going with a fixed fee bouquet deal. So, in the earlier era what was happening that you pay fixed fee to the broadcaster, carry all the channels throw it on the consumers and whether it is watched or not it does not matter. Now, what we have attempted in case of two broadcasters is that we are getting now on A-La-Carte offering to customers on A-

La-Carte so, customers are now deciding which channel they want and which channel they do not want. So, the actual payments are based on the actual subscription of a channel by a customer. So, on that account also the cost has come down a little bit.

Sachit Khera I must also congratulate you on turning around in the non-Orissa market. How much percentage of digitization has already been done?

Bibhu Prasad Rath 50%.

Moderator Thank you. We have the next question from the line of Sanjay Chawla from JM Financial. Please go ahead.

Sanjay Chawla Just a follow-up on the Broadband question. The net additions have been low, so, my question is how has the churn behaved and also the usage per customer has also come down in terms of the gigabytes per month so, consumption has also come down. So, how much of that do you think could be related to Reliance Jio free offer which is going on in the market?

Bibhu Prasad Rath No, I think none of this is relating to Reliance Jio. The growth which has come down is partly because of the reasons which I just explained that our roll outs in some of the markets have got delayed. We are rolling out one after other and that has not happened for various other reasons, logistical regions. And the download which has come down marginally from 5 gigs to 4.5 gigs, I do not think there is a specific reason behind that is how the consumers have done. But if I want to answer your specific query that Reliance Jio has impacted us or not, what we have seen on the ground in terms of the Reliance Jio to the extent of the segments which relating to students, youth, etc., we have seen many of them trying out a Reliance Jio connection but that has per se has not affected our growth.

Sanjay Chawla But the consumption is down obviously for the lower net additions that you have reported, you said execution is the reason but I am just curious why the usage download per customer has come down?

Bibhu Prasad Rath It has marginally come down from 5 gig to 4.5 gig.

Sanjay Chawla Extra 15% drop in monthly usage so, you would not attribute this to Reliance Jio free launch in any way at all?

Bibhu Prasad Rath I cannot guarantee that it is not because of that but I have not seen significant churn on account of that. But if somebody has got a Jio free phone, say set of my customers who have got Jio free phones downloading as a hobby as a trial or whatever it is okay, actually to that extent my bandwidths consumption goes down a little. But if you see on an overall, on a CAGR basis, the downloads have gone up and I expect this to go up also because what happens when you do more and DOCSIS 3.0 download should actually go up. Let us track it for one or two more quarters and then I think we can come to a conclusion.

Sanjay Chawla Just one clarification, is this just the download and so, you are not counting the upload here in the numbers that you have reported?

Bibhu Prasad Rath Yes, it is only download and also I want one clarification that also may have contributed to this which I will get it checked offline is that this is the download only, upload is not included and also this does not include the download to the extent I do FTTH and those are real-real heavy downloads. But then that is also historically it has not been included.

Sanjay Chawla So, you are saying this could include segment of customers who are on FTTH?

- Bibhu Prasad Rath** It does not include. I have something like a 100 odd customers on FTTH or may be 200 customers, very small number of customers but those are real heavy download customers. They take 150 MB - 200 MB kind of bandwidth. So, that was historically also not included so, it is not included in this quarter. So, on an apple-to-apple basis it has gone down. Upload also historically was not included.
- Moderator** Thank you. We have the next question from the line of Utkarsh Khandelwal from Morgan Stanley. Please go ahead.
- Utkarsh Khandelwal** I just have one question on the draft tariff order, I want your views on the rental fee which the TRAI has proposed, that can be a max of Rs. 130. I just wanted your views that will all MSOs be getting Rs. 130 of full rental or there can be like competition between the MSOs like who charges lesser rental so, that they can attract more customers?
- Bibhu Prasad Rath** I am sure, there will be competition because this Rs. 130 rental is a cap that is the minimum, so Rs. 130 is a cap. So, you have potential to even go beyond Rs. 130 because TRAI allows Rs. 20 for ever incremental 25 channels so, we can go in blocks of Rs. 20. You can go from Rs. 130 to Rs. 150 you know Rs. 170 or whatever. But you know if you see our current math so, our current math is my ARPU is something Rs. 155 analog-digital combined and my broadcaster cost is Rs. 40. So, I am doing actually around Rs. 110. So, this Rs. 130 provides ample headroom for me to do what I am doing today and by adding more channels I can go beyond Rs. 130. I am sure there will be competition and I myself even charge lower than Rs. 130 in some markets so, ultimately it will go to what kind of service delivery you are doing to the consumers. Because if you read all the three regulations which have come and not only the tariff order in isolation but the next one is very-very critical which is the quality of service, this is for the first time the regulators are saying that you guys focus on service. Most of the industry has been always in a negotiation mode, bargaining mode, can MSO take more money from broadcaster, can broadcaster take more from MSO, can MSO eat in to LCO share, can LCO eat into MSO share, these are the kind of things we have seen in the industry for last 20 years. Now the regulator is very clear on this. I think the message is very loud and clear that the guy is focused on service, do not focus on negotiations and bargain.
- So, that second piece of regulation which has gone, I think I would encourage that you read that, it is very-very critical and I am very-very confident that we are absolutely in the right shape and we have the right backend, technology and everything and we are in fact almost all of that I am already doing irrespective of the regulation. So, whether I have to charge Rs. 130 or Rs. 120 or Rs. 110 or I have the ability to charge say Rs. 150 or Rs. 170, that will depend on primarily on what kind of service I am delivering. But I am sure there will competition and undercutting.
- Moderator** Thank you. Ladies and gentlemen, that was the last question, I would now like to hand the floor over the management for closing comments. Thank you and over to you.
- Management** Thank you for joining us on the call. Hope we were able to answer all your questions. In case you have any more questions or you need any further information on the company, please feel free to contact us or CDR India. Thank you very much.
- Moderator** Thank you very much. Ladies and gentlemen, on behalf of Ortel Communications Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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